

COMPLIANCE AND CONTROL AUDIT REPORT

Department of Social and Rehabilitation Services

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 2002**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three

members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Representative Lisa Benlon, Chair
Representative Richard Alldritt
Representative John Ballou
Representative Dean Newton
Representative Dan Thimesch

Senator Lynn Jenkins, Vice-Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

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Website:
<http://skyways.lib.ks.us/ksleg/PAUD/homepage.html>
Barbara J. Hinton, Legislative Post Auditor

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

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E-MAIL: lpa@lpa.state.ks.us

January 4, 2002

To: Members, Legislative Post Audit Committee

Representative Lisa Benlon, Chair
Representative Richard Alldritt
Representative John Ballou
Representative Dean Newton
Representative Dan Thimesch

Senator Lynn Jenkins, Vice-Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

This report contains the findings from our completed compliance and control audit of the Department of Social and Rehabilitation Services.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink, reading "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Did the Department of Social and Rehabilitation Services pay its vendors and providers on a timely basis?

The Department made about 98% of its payments to vendors and providers on a timely basis. page 3
To test compliance with the Kansas Prompt Payment Act and contract provisions, we looked at a sample of 118 payments. Of the two late payments we identified, one was made 30 days late and the other was made more than two months late.

Appendix A: Agency Response page 5

This audit was conducted by Kate Watson. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

The Department of Social and Rehabilitation Services

The Legislative Division of Post Audit has conducted compliance and control audit work at the Department of Social and Rehabilitation Services. Compliance and control audits can identify noncompliance with applicable requirements and poor-financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on whether the Department makes timely payments to vendors and providers. The audit addresses the following specific question:

Did the Department of Social and Rehabilitation Services pay its vendors and providers on a timely basis?

To answer these questions, we reviewed applicable provisions of State law, interviewed appropriate Department officials, and reviewed a sample of payments to vendors and providers for timeliness.

In conducting this audit, we followed all applicable government auditing standards. Our findings begin on page 3.

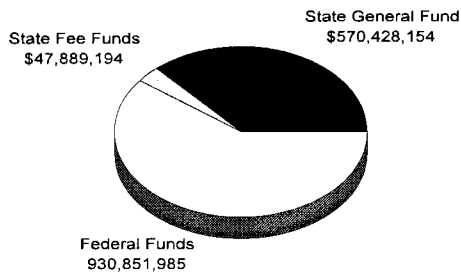
Department of Social and Rehabilitation Services AT A GLANCE

Authority: Created in 1973 by KSA 75-5301 et seq. to replace the Board of Social Welfare.

Staffing: The Department has 4,325.3 full-time-equivalent positions.

Budget: The Department's funding comes mainly from Federal Funds. For fiscal year 2000, the Department spent about \$1.5 billion, as shown below.

FY 2000 Funding Sources



Total Funding: \$1,549,169,333

FY 2000 Expenditures

<u>Type</u>	<u>Amount</u>	<u>% of Total</u>
Salaries/Wages	\$144,488,541	9%
Contractual Services	114,946,275	7%
Commodities	2,639,737	1%
Capital Outlay	3,591,644	1%
Aid to Local Govt.	111,892,160	7%
Other Assistance	1,171,411,498	75%
Capital Improvements.	199,478	0%

Total Expenses: \$1,549,169,333 100%

Source: Department of Social and Rehabilitation Services and the Governor's Budget Report, Fiscal Year 2000

Question 1: Did The Department of Social and Rehabilitation Services Pay Its Vendors and Providers On a Timely Basis?

The Department Made About 98% of Its Payments To Vendors and Providers on a Timely Basis

The Department generally paid its vendors and providers on a timely basis. Of the 118 payments we reviewed, only 2 payments were made late. The Department didn't incur additional finance charges or late fees as a result of the late payments. The basis for these findings is summarized below.

We reviewed the requirements of the Kansas Prompt Payment Act (K.S.A. 75-6403) and applicable contract provisions to determine the criteria for timeliness of payments. The Kansas Prompt Payment Act requires State agencies to pay bills within 30 days of receiving the goods or services or 30 days after the invoice is received, whichever is later. We also reviewed the Department's contract with Blue Cross Blue Shield, which covers payments to providers. That contract's provisions for timely payments generally are consistent with the requirements of the Kansas Prompt Payment Act.

To see if the Department complied with these requirements, we reviewed a total of 118 payments made to vendors and providers. Overall, 116 (98%) of these payments were timely. Our review comprised the following three samples:

- 40 payments to vendors with one late payment
- 40 payments to providers with no late payments
- 38 interfund payments with one late payment.

Of the two late payments we identified, one was made 30 days late and the other was made more than two months late.

When payments aren't made on a timely basis, vendors sometimes add a finance charge or late fee to the amount due. For the payments we reviewed, no additional finance charges or late fees were incurred.

A Department of Social and Rehabilitation Services Internal Audit Found Some Problems with Timeliness of Payments

The Department's Office of Audit and Consulting Services conducted an audit covering the period May 1, 1999 through June 30, 2000. The focus of the audit was to determine whether the Department had made payments to vendors and providers on a timely basis. The Department's criteria for timeliness of payments was based on provisions of the Kansas Prompt Payment Act which requires payments to be made within 30 days of receiving the goods or services, or 30 days after the invoice is received, whichever is later. Of the 210 payments Department auditors reviewed, they identified 26 payments (12%) that weren't made on a timely basis. Based on the audit's findings, the Department improved its payment procedures.

APPENDIX A

Agency Response

On December 12, 2001 we provided copies of the draft audit report to the Department of Social and Rehabilitation Services. The Department's response is included as this Appendix. The response indicates that the At A Glance information reflected only the portions applicable to Administration and not the entire SRS budget. The At A Glance section of the report has since been changed to reflect the entire SRS budget.



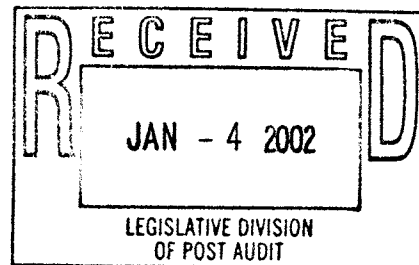
KANSAS DEPARTMENT OF SOCIAL
AND REHABILITATION SERVICES

915 SW HARRISON STREET, TOPEKA, KANSAS 66612

JANET SCHALANSKY, SECRETARY

January 2, 2002

Ms. Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
Mercantile Bank Tower, Suite 1200
Topeka, Kansas 66612-2212



Re: Compliance and Control Draft Audit Report

Dear Ms. Hinton:

Thank you for the opportunity to provide comments to the above referenced report. My staff felt the audit was conducted in a cooperative and professional manner and the overall findings reflect that the Department's payments to its vendors and providers are made timely.

Please note on page 2 of the report that the "AT A GLANCE" funding and expenditure information only reflects the portion applicable to Administration, not the entire SRS Budget.

Again, we appreciate the opportunity to provide input to this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Janet Schalansky".
Janet Schalansky
Secretary

JS:MSH

cc: Diane Duffy, Deputy Secretary
Ray Dalton
Mary Hoover
Trudy Racine

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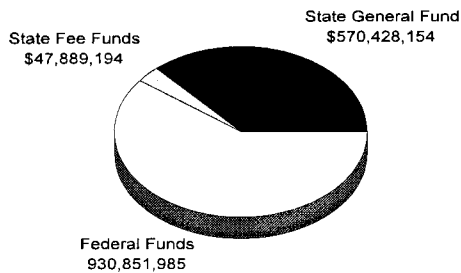
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